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THE MISSOURI LOTTERY

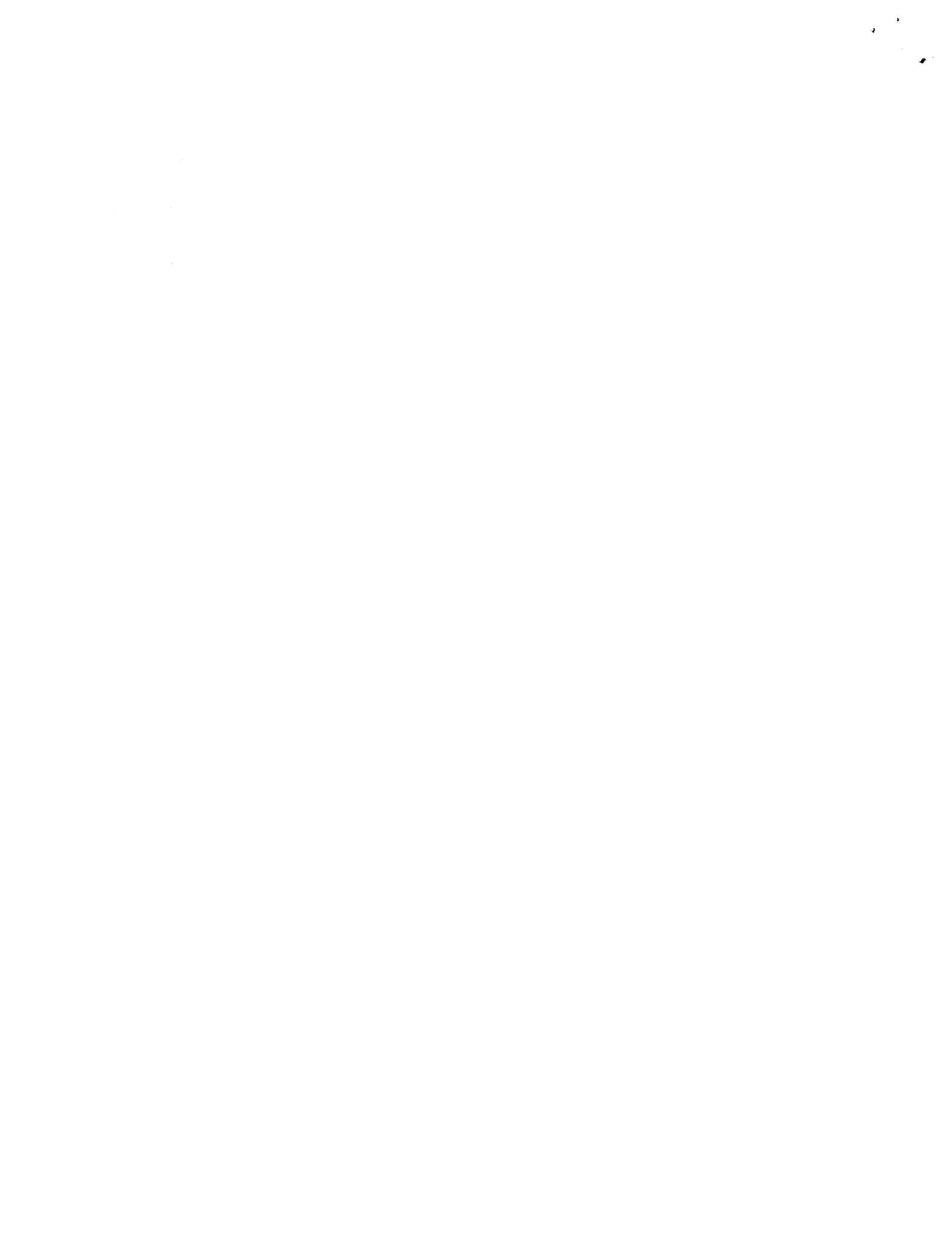


FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 1999

with

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Missouri Lottery Commission:

We have audited the accompanying balance sheets of the Missouri Lottery and the Missouri Lottery Grand Prize Winners Trust Account as of June 30, 1999, and the related statements of revenues, expenditures and retained earnings, cash flows and changes in grand prize winners trust account for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Missouri Lottery for the year ended June 30, 1998 were audited by other auditors whose report, dated October 2, 1998, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Lottery and the Missouri Lottery Grand Prize Winners Trust Account as of June 30, 1999, and the results of operations, cash flows and changes in grand prize winners trust account for the year then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Missouri Lottery is or will become year 2000 compliant, that the Lottery's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Lottery does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 1999, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Berberich Trahan & Co., P.A.

October 6, 1999

Cochran, Head & Co., P.C.

MISSOURI LOTTERY

BALANCE SHEETS AS OF JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,812,543	\$ 19,208,728
Accounts receivable	28,647,740	21,052,905
Ticket inventories	<u>226,669</u>	<u>313,241</u>
Total current assets	52,686,952	40,574,874
PROPERTY AND EQUIPMENT	<u>8,657,852</u>	<u>6,442,016</u>
Total assets	<u>\$ 61,344,804</u>	<u>\$ 47,016,890</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,905,730	\$ 4,888,813
Due to Lottery Proceeds Fund	10,784,696	5,148,396
Accrued prize liabilities	35,863,459	30,291,269
Other accrued liabilities	1,662,832	1,593,827
Capital lease obligations	<u>318,518</u>	<u>0</u>
Total current liabilities	53,535,235	41,922,305
CAPITAL LEASE OBLIGATIONS	367,267	0
OTHER DEFERRED LIABILITIES	7,442,302	5,094,585
RETAINED EARNINGS	<u>0</u>	<u>0</u>
Total liabilities and retained earnings	<u>\$ 61,344,804</u>	<u>\$ 47,016,890</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND RETAINED EARNINGS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES:		
On-line ticket sales	\$ 235,500,040	\$ 207,516,114
Instant ticket sales	248,510,434	257,643,316
Pull-tab ticket sales	<u>29,240,982</u>	<u>29,139,331</u>
 Total operating revenues	 <u>513,251,456</u>	 <u>494,298,761</u>
OPERATING EXPENSES:		
On-line prize expense	118,475,878	104,469,294
Instant prize expense	145,327,340	150,357,042
Pull-tab prize expense	18,503,234	18,341,981
On-line retailer commissions and incentives	13,409,472	11,892,649
Instant retailer commissions and incentives	16,466,399	16,821,655
Pull-tab retailer commissions and incentives	2,402,514	2,396,317
Cost of tickets sold	13,195,977	12,457,684
Advertising and promotions	10,175,179	10,193,847
Wages and benefits	7,518,932	7,072,782
Other general and administrative	<u>12,329,961</u>	<u>11,901,186</u>
 Total operating expenses	 <u>357,804,886</u>	 <u>345,904,437</u>
 Operating revenues over expenses	 <u>155,446,570</u>	 <u>148,394,324</u>
NONOPERATING REVENUES:		
Interest income	1,518,063	945,708
Other	<u>1,597,855</u>	<u>185,404</u>
 Total nonoperating revenues	 <u>3,115,918</u>	 <u>1,131,112</u>
 Income before operating transfers	 158,562,488	 149,525,436
TRANSFERS TO STATE OF MISSOURI:		
Operating transfers	<u>(158,562,488)</u>	<u>(149,525,436)</u>
 Excess of revenues over expenses and transfers	 0	 0
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>0</u>	<u>0</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI LOTTERY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Income before transfers	\$ 158,562,488	\$ 149,525,436
Adjustments to reconcile income before transfers to net cash provided by operating activities-		
Operating transfers	(150,578,471)	(147,134,560)
Revenue from fixed assets received at no cost	(1,107,200)	0
Depreciation and amortization	1,986,455	1,940,880
Gain on sale of assets	(13,404)	(99,780)
Grand prizes deferred	7,395,864	10,789,592
Transfers to Grand Prize Winners Trust Account	(7,395,864)	(10,789,592)
Change in assets and liabilities-		
Accounts receivable	(7,594,835)	(2,987,692)
Ticket inventories	86,572	75,885
Accounts payable and other accrued liabilities	85,922	(1,562,015)
Accrued prize liabilities	<u>5,572,190</u>	<u>5,372,563</u>
Net cash provided by operating activities	<u>6,999,717</u>	<u>5,130,717</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(2,195,270)	(1,318,831)
Proceeds from sale of assets	<u>110,063</u>	<u>115,388</u>
Net cash used for investing activities	<u>(2,085,207)</u>	<u>(1,203,443)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	<u>(310,695)</u>	<u>0</u>
Net cash used for financing activities	<u>(310,695)</u>	<u>0</u>
Net increase in cash	4,603,815	3,927,274
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>19,208,728</u>	<u>15,281,454</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 23,812,543</u>	<u>\$ 19,208,728</u>

NON-CASH TRANSACTIONS:

During Fiscal Year 1999 the Lottery entered into a leasing agreement which resulted in additions to fixed assets of \$996,480.

During Fiscal Year 1999 the Lottery received fixed assets valued at \$1,107,200 from a vendor.

The accompanying notes are an integral part of these financial statements.



MISSOURI LOTTERY

GRAND PRIZE WINNERS TRUST ACCOUNT
BALANCE SHEETS AS OF JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>		
U.S. GOVERNMENT SECURITIES	<u>\$ 107,521,375</u>	<u>\$ 104,311,279</u>
<u>LIABILITIES</u>		
DEFERRED GRAND PRIZE LIABILITY	<u>\$ 107,521,375</u>	<u>\$ 104,311,279</u>

MISSOURI LOTTERY

STATEMENT OF CHANGES IN GRAND PRIZE WINNERS TRUST ACCOUNT

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
TRANSFERS FROM MISSOURI LOTTERY	\$ 7,395,864	\$ 10,789,592
INTEREST ACCRETION	7,355,232	7,169,449
PAYMENTS TO GRAND PRIZE WINNERS	<u>(11,541,000)</u>	<u>(10,592,000)</u>
Net increase	3,210,096	7,367,041
BALANCE AT BEGINNING OF YEAR	<u>104,311,279</u>	<u>96,944,238</u>
BALANCE AT END OF YEAR	<u>\$ 107,521,375</u>	<u>\$ 104,311,279</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI LOTTERY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999 AND 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Missouri Lottery (the Lottery) is accounted for as a proprietary type enterprise fund, is a component unit of the State of Missouri and is exempt from income taxes. The financial statements are prepared in accordance with generally accepted accounting principles on the accrual basis of accounting and conform with practices generally followed in the gaming industry. The Lottery applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Revenue Recognition

Sales of on-line lottery tickets are generated by the semiweekly "LOTTO" and "Powerball" games, and the daily "Show-Me 5", "PICK 4" and "PICK 3" games. Sales of lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Sales of instant lottery tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances have been established for estimated tickets to be returned by retailers of approximately \$474,000 and \$366,000 at June 30, 1999 and 1998, respectively.

Sales of pull-tab lottery tickets are made to licensed retail sales outlets with no right of return. Ticket sales are recognized upon the sale of tickets to retailers and are valued at the sale price to the player.

Prizes

Expenses for on-line lottery ticket prizes are recorded based on a minimum of 45% of on-line lottery ticket sales. Grand prize winners have the choice of receiving the prize in 25 annual installments or a portion of the prize in one lump-sum payment. Any prize that remains unclaimed for one year from the date of the on-line game drawing is used to fund future prize pools.

Expenses for instant lottery ticket and pull-tab lottery ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds on deposit with the State Treasurer and banks. The cash on deposit with the State Treasurer is pooled with other Missouri state funds and is fully secured by the depository institutions holding the funds. The Lottery considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Retailer Fees

Licensed retailers are charged a fee for the right to sell lottery tickets. Additionally, certain retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are maintained in a reserve fund to offset uncollectable accounts receivable from retailers. This reserve fund approximated \$364,000 and \$443,000 at June 30, 1999 and 1998, respectively, and is reflected as a reduction of accounts receivable on the accompanying balance sheets.



Ticket Inventories

Ticket inventories consist of instant and pull-tab tickets purchased by the Lottery for new games which have not been implemented. Inventories are carried at cost, using the specific identification method. Tickets are charged to cost of tickets sold upon implementation of the game.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated life of the related asset. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Due to Lottery Proceeds Fund

All income before operating transfers of the Lottery, as described in the accompanying statements of revenues, expenditures and retained earnings, accrues to the benefit of the State of Missouri. Operating transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of elementary, secondary and higher education.

Operating transfers are made monthly and are based on estimated income before operating transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, is deferred and is not subject to current operating transfers.

2. STATUTORY REQUIREMENTS:

Missouri statutes provide that a minimum of 45% of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Investigative services are provided by the Missouri State Highway Patrol. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

3. ON-LINE TICKET SALES:

On-line ticket sales consist of the following:

	<u>1999</u>	<u>1998</u>
Powerball	\$ 132,599,484	\$ 101,082,612
PICK 3	45,622,562	49,711,706
LOTTO	24,981,515	27,875,180
Show-Me 5	23,537,442	23,666,577
PICK 4	8,759,037	0
Daily Millions	0	5,180,039
	<u>\$ 235,500,040</u>	<u>\$ 207,516,114</u>



4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>1999</u>	<u>1998</u>
Land	\$ 315,052	\$ 315,052
Building	4,048,586	3,790,308
Computers and related software	3,802,239	4,635,335
Equipment	11,156,080	8,417,247
Autos	1,879,244	1,761,849
Other	<u>45,000</u>	<u>45,000</u>
	21,246,201	18,964,791
Less- Accumulated depreciation and amortization	<u>12,588,349</u>	<u>12,522,775</u>
	<u>\$ 8,657,852</u>	<u>\$ 6,442,016</u>

Depreciation expense for the years ended June 30, 1999 and 1998 were \$1,986,455 and \$1,940,880, respectively.

5. PENSION PLAN:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) plan, a single employer, multiple agency, public employee defined benefit retirement plan. The plan is administered by the MOSERS Board of Trustees in accordance with Sections 104.010 and 104.312 to 104.800 of the Revised Statutes of Missouri. Substantially, all full-time employees of the Lottery are covered by the plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, or by calling (800) 827-1067.

The Lottery's contributions to the plan are set annually by MOSERS, and in fiscal 1999 and 1998, were approximately \$706,000 and \$566,000, respectively.

6. LEASES:

The Lottery's regional facilities are held under operating lease agreements with renewal options available for one to four additional one-year periods. Annual rent expense for these facilities totaled approximately \$362,000 and \$199,000 in fiscal 1999 and 1998, respectively.

The Lottery leases ticket vending machines under operating lease agreements with options available for additional one-year periods. Annual lease expense for these machines totaled approximately \$931,000 and \$929,000 in fiscal 1999 and 1998, respectively.

Capital Lease Obligations

The Lottery leases ticket validation equipment under a capital lease expiring in fiscal 2001. The lease has been capitalized at an interest rate of 6.168%. Amortization on the capitalized amount is included in depreciation expense.



Future minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2000	\$ 380,250
June 30, 2001	<u>351,000</u>
	731,250
Less- Interest component	<u>45,465</u>
Present value of minimum lease payments	\$ 685,785

7. CONTRACTUAL ARRANGEMENTS:

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's on-line game computer systems and agreements with producers of the Lottery's instant and pull-tab games tickets, among others. The contracts generally run for one year, with one-year renewals available at the option of the Lottery. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 21 state and district lotteries (member lotteries) and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50% of sales to prize winners or to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL. During fiscal 1998, MUSL also operated the Daily Millions game.

Grand prize winners of MUSL's games prior to November 5, 1997 receive prize payments annually over a 20-year period. Powerball grand prize winners after that date have the choice of receiving the prize in 25 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the state of Missouri are excluded from the accompanying grand prize winners trust account statements. Future grand prize winner payments of MUSL games due to winners in Missouri are approximately \$243,563,000 as of June 30, 1999.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 1999, the Lottery's portion of the prize reserve fund and set prize reserve fund was approximately \$4,220,000 and \$1,615,000, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 1999, the Lottery's portion of the balance of this account was approximately \$1,272,000.

8. GRAND PRIZE WINNERS TRUST ACCOUNT:

Since March 1990, to fund future payments under grand prize winner prize claims, the Lottery purchases U.S. Treasury zero coupon bonds, with maturities approximating deferred grand prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account for the grand prize winners trust account. The investments in these securities are carried at cost, adjusted for the accretion of discounts based on the purchase yield and the maturity date. Accretion on these investments is not recognized as revenue of the Lottery but is credited to deferred grand prize liability. These securities are not subject to trading but are intended to be held to maturity. The market value of these securities at June 30, 1999 and 1998, was approximately \$114,994,000 and \$116,059,000, respectively. The maturity value of securities held at June 30, 1999 and 1998, was \$171,920,000 and \$169,801,000, respectively.



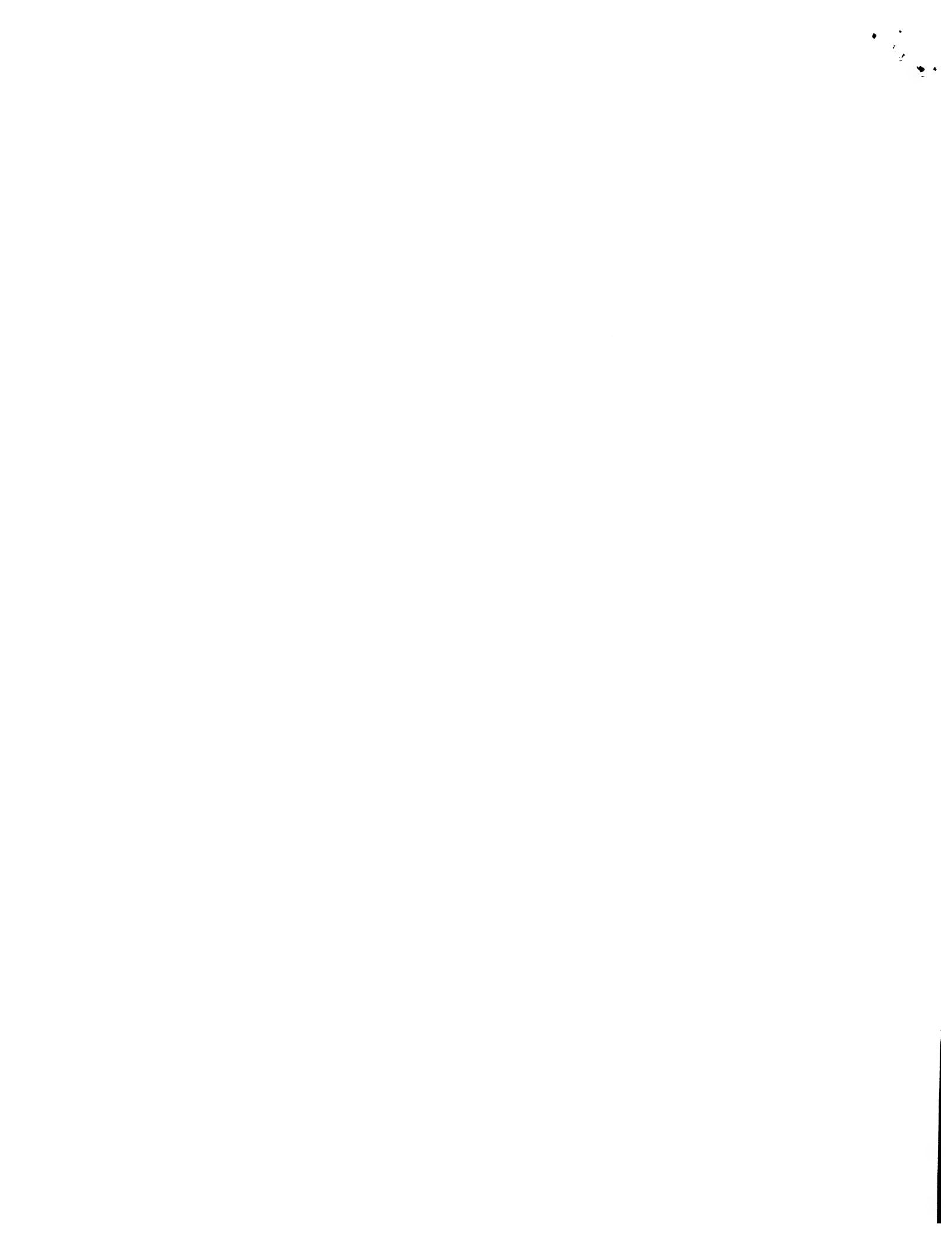
Scheduled grand prize installment payments to be funded by the maturing U.S. Treasury zero coupon bonds, as of June 30, 1999, are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2000	\$ 12,121,000
June 30, 2001	12,121,000
June 30, 2002	12,121,000
June 30, 2003	12,121,000
June 30, 2004	12,121,000
Thereafter	<u>111,315,000</u>
Total installment payments due	171,920,000
Less- Interest portion	<u>64,398,625</u>
	<u>\$ 107,521,375</u>

Prior to March 1990, the Lottery purchased annuity contracts from selected insurance companies to fund the "LOTTO" grand prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. Future installment payments to be made to grand prize winners by these insurance companies totaled approximately \$56,728,000 at June 30, 1999.



SUPPLEMENTARY INFORMATION



YEAR 2000 REQUIRED SUPPLEMENTARY INFORMATION

The Year 2000 problem is one that is a direct result of the new millennium. This problem is often referred to by the acronym "Y2K." Until recently, computer storage and memory capability was very expensive. A tremendous amount of computer software was written with the date given as only two digits rather than four digits for the year. The practice of using two digits for the year was done to conserve this expensive storage space. Left unchanged, these systems as of 01/01/00 would assume the year 1900 rather than 2000. Thus any usage of two digit dates for calculations, comparisons or formulas will have erroneous results.

Y2K issues are not isolated to business applications alone. Computer operating systems, communications equipment and any electronic equipment has the potential for encountering problems related to the new millennium.

To address these issues at the Missouri Lottery a project team was formed in January 1998. This team was composed of internal information systems specialists, contracted systems specialists from our gaming suppliers and an independent risk assessment consultant to guide the entire process. The risk assessment consultant, with the assistance of Lottery staff, inventoried all electronic equipment and researched the compliance of the equipment with the equipment's vendor. Equipment identified as non-compliant or questionable was placed on a list for upgrade or modification. This equipment included primary mainframe system, many low-end PC workstations and some of our mission critical communications equipment. Internal and gaming systems were reviewed using code searching routines and direct examination. Code was modified where needed to a four-digit year format and tested using a system date roll forward.

Contract and Lottery staff services for this project totaled \$88,216. Equipment purchases totaled \$41,900. This equipment excludes LAN and Stratus mainframe purchases, which were upgraded in the normal course of business.

Due to the unprecedented nature of the Y2K issue, the success of the Lottery's remedial efforts are not fully determinable until the year 2000 and thereafter. Therefore management cannot assure with complete certainty that the Lottery, or its suppliers, are or will be year 2000 compliant.



 Berberich Trahan & Co., P.A.
Certified Public Accountants
Topeka, KS 66612-1268

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT ACCOUNTING STANDARDS

To the Missouri Lottery Commission:

We have audited the financial statements of the Missouri Lottery as of and for the year ended June 30, 1999, and have issued our report thereon dated October 6, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Missouri Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Missouri Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and the Missouri Lottery Commission and is not intended to be and should not be used by anyone other than those specified parties.

Berberich Trahan & Co., P.A.

October 6, 1999

Cochran, Head & Co., P.C.

